

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ALEXANDROVICH
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS
(ABP/USPS-T5-1 AND 2)

The United States Postal Service hereby provides responses of witness Alexandrovich to the following interrogatories of American Business Press: ABP/USPS-T5-1 and 2, filed on October 8, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 21, 1997

Response of United States Postal Service Witness Alexandrovich
to
Interrogatories of ABP

ABP/USPS-T5-1. In your response to ABP/USPS-T13-13(a) (redirected from Witness Bradley) you state that both volume and non-volume variable costs would decline if dropshipping "caused the accrued costs in certain purchased highway transportation accounts to decline."

- a. Which accounts in particular do you have in mind and provide examples where non-volume variable costs have declined because of dropshipping.
- b. If a cost does not vary with volume, or with the transportation of unit of volume, then how and why can a "non-variable" cost decline because of less volume?

Response to ABP/USPS-T5-1

- a. I have not studied dropshipping but I am informed that two possible accounts where the effect of dropshipping could be felt are the inter-BMC and plant load accounts. Because accrued cost in transportation is comprised of both volume variable and non-volume variable cost, a reduction in accrued cost from purchasing less transportation would reduce both types of cost.
- b. In purchased highway transportation, non-volume variable cost arises because of the economies of scale in production (variability is less than one). Volume variable cost is the product of the marginal cost of the last unit times volume (or its proxy). Non-volume variable cost is simply total cost minus volume variable cost. If dropshipping causes a material reduction in cubic foot-miles of purchased highway transportation, the

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Response to ABP/USPS-T5-1 (cont.)

marginal cost of the last unit produced will rise. It is in this sense that both volume variable and non-volume variable costs will fall.

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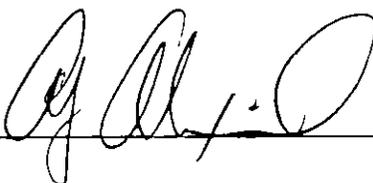
ABP/USPS-T5-2. ABP/USPS-T13-13, to which you responded, asked what was the "primary reason" that 26% of total highway costs are non-attributable, as compared with higher variability/attributions for other transportation mode accounts. You replied that there are different variabilities for different modes because "terms of incurrence in purchased highway transportation result in these cost being less sensitive to volume changes." Explain in detail what you meant by "terms of incurrence."

Response to ABP/USPS-T5-2

By "terms of incurrence" I meant the rate at which unit costs respond to increases in volume (or its proxy). In certain highway transportation accounts, like inter-SCF and intra-SCF the volume variability is materially less than one. This means that the cost per cubic foot-mile declines as the number of cubic foot-miles purchased rises. Because of this, total costs rise less than proportionately with volume and these costs are less sensitive to volume changes.

DECLARATION

I, Joe Alexandrovich, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 10/21/97

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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